

## **Montenegro: Berth of a nation**

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Budva, Montenegro — Peter Munk and I are plunked in the library of the “Te Manu,” a spotless white floating palace built in Italy, owned by a Mexican, named after the Polynesian word for “bird” and chartered for the week by the chairman and acting CEO of Barrick Gold and his family. The yacht is anchored in Budva, a medieval town turned bustling resort on the coast of Montenegro, one of the breakaway republics of the shredded Yugoslavia. It has four levels, a crew of 11 and an interior clad with cherry and walnut panelling. At 49.4 metres (160 feet), it is one of the biggest and most expensive of its kind in the rarefied world of superyachts – generally defined as crewed pleasure boats of 30 metres or longer. This baby rents for \$175,000 to \$210,000 (U.S.) a week.

On this hot summer day the Te Manu is more than a boat. It is also Mr. Munk's office. But the affairs of the world's biggest gold company are not on his mind. Porto Montenegro is. The table next to the library is strewn with notes, plans and diagrams for the superyacht marina and luxury resort that is the billionaire's newest and most glamorous project. He and his high-profile backers recently became Montenegro's biggest foreign investors, with their €260-million-plus (\$405-million) plan to make Porto Montenegro the Mediterranean's, perhaps the world's, premier superyacht destination.

Gold magnate Peter Munk and an A-list of global investors are pumping more than US\$400-million into the Porto Montenegro project. Mr. Munk is tackling this project at 80, making him one of the world's oldest CEOs. Porto Montenegro proves he's one of the most energetic too. “Peter Munk is amazing,” says fellow Canadian gold magnate Pierre Lassonde, the former president of Newmont Gold. “He will be 81 this fall and he is still building projects. My definition of young is when your coefficient of dreams to memories is greater than one. Peter only talks about the future. The past rarely comes into his conversation.”

Porto Montenegro will transform the Montenegrin economy for the better, Mr. Munk promises. “It will improve the prosperity of the country and raise its status internationally,” he says. But the project has had a rough start. Thousands of Montenegrins took to the streets in protest when word got out that the old Arsenal navy yard would be recast as a playground for the idle rich. Some locals think Munk & Co. is building something akin to a gated community for floating Russian billionaires – Russian tourists and investors are already so thick on the ground that the country is known as “Moscow by the Med.” Marine biologists fear the yacht harbour will damage the already stressed ecology of the Bay of Kotor, the Med's only fjord and one of the loveliest anchorages on the planet.

Montenegro presses against Croatia, Bosnia, Serbia and Albania on the southern fringes of the Dalmatian Coast. The seaside is heaven. Green mountains plunge into the Adriatic, the water is cerulean blue and unsullied. Ancient towns, some fortified, dot the shores. Hotels, restaurants and shops are springing up everywhere, but the densities (and the prices) are nowhere near the horrific levels of France's Côte d'Azur.

If Mr. Munk gets his way – there is no reason to think he won't, given the money already invested and the approvals obtained – the Te Manu won't stick out from the crowd at Porto Montenegro, some 15 kilometres north of Budva. The Bay of Kotor marina will have berths for 650 yachts, 150 of them superyachts. Boats as long as 150 metres could be accommodated in a pinch.

Oliver Corlette explains why a marina capable of taking that many superyachts will be sure to find an eager market. He is the Australian-born, 33-year-old managing director of Porto Montenegro and came into the Munk family fold through the New York office of Onex, controlled by Gerry

Schwartz, where he worked on the private equity team with Anthony Munk, Peter's son. Anthony is a Porto Montenegro investor.

### **Running out of room**

Mr. Corlette says there is simply no room anywhere for the new flotilla of superyachts. Antibes, in the south of France, is probably the Med's biggest superyacht marina; it can accommodate only a few dozen of the biggest boats. The problem is that superyachts are being pumped out like doughnuts and are matching their owners' egos in size. "The modern yachts are like ships," he says. "Harbours like Monaco and Antibes were created at a time when 30 metres was considered huge. It's not any more."

At last count, more than 900 superyachts were under construction as the new millionaires and billionaires from Russia, India, China and parts in between plunked down deposits on the ultimate status symbols. Porto Montenegro will be able to soak up a good number of these boats once the marina is finished in a couple of years.

Mr. Munk says the economics of marina ownership are irresistible. Marinas are like hotels in the sense the guest rents a small bit of real estate – a dock in the captain's case. Hotels, an industry he knows well, require extensive refurbishing to remain competitive. The non-stop capital expenditures drain cash flow. "I realized the port business is like the hotel business, except there are no capital expenditures after you build the cement docks," he says.

A year lease on a superyacht dock would start at €100,000 or so. But it gets better – the yachts need to be cleaned, fuelled, repaired and refurbished. Superyachts, says Mr. Corlette, cost about €1-million a metre to build. The annual operating bill works out to about 10 per cent of the construction cost – the tab to run a 40-metre yacht would come to €4-million a year. Porto Montenegro hopes to snag much of this spending. It's why Mr. Munk hopes to become a partner in the commercial shipyard, called Bijela, across the bay from Porto Montenegro, and convert it into a yacht-repair business.

Mr. Munk landed Porto Montenegro through a combination of luck, good timing and impeccable connections. He has chartered yachts for much of his adult life and he remembers the time several years ago when he kissed off Monaco, the packed-to-the-gunwales Mediterranean anchorage of the yachting elite. He jumped overboard for a swim, felt something strange brush his skin and realized he had had a distasteful encounter with a condom.

No more Monaco. But where was a boat-loving billionaire to go? It wasn't long before he found a potential yachties' paradise in a broken half-country called Montenegro. "I didn't even know where Montenegro was," he says.

About four years ago, at a dinner party in London, he was approached by a friend who told him he should invest in Montenegro, then still attached to Serbia and going nowhere, thanks to the economic sanctions imposed on Serbia and Montenegro in the 1990s, when war was ripping the Western Balkans apart. "I said forget it – it's not even a real country," Mr. Munk told him.

### **Golden opportunity**

But hard-luck countries often present gorgeous investment opportunities and Mr. Munk soon changed his mind. He called Robert McDougall, Canada's ambassador in Belgrade. "The ambassador said Montenegro is going to be independent and was convinced it would become like Monaco," Mr. Munk says. "I trusted him."

Another phone call was made by Mr. Munk's friend Oleg Deripaska, the Russian billionaire and owner of Basic Element, the powerful industrial group that last year invested C\$1.5-billion in Canada's Magna International auto parts company and bought Montenegro's aluminum smelter, called KAP, the year before. "Oleg made the first phone call to the prime minister [of Montenegro, Milo Djukanovic] and opened the door for me," he says.

Before he knew it, Mr. Munk was flying over the tiny country of 700,000 people in a military helicopter, peering down at potential development sites. And there it was – the Bay of Kotor. "I had never seen a place like this," he says. "I fell in love with it."

The bay is a geographical wonder. The English poet Lord Byron called it "the most beautiful encounter between the land and the sea." Its steep, rugged mountains frame a natural harbour that is well shielded from the Adriatic and has about 100 kilometres of coastline. The bay takes the rough shape of a figure eight, with the inner and outer portions pinched in the middle by a narrows.

The inner bay has a delicate ecosystem. It is fed by mountain springs, producing brackish water. It is also home to two postcard-perfect medieval towns, Kotor itself and nearby Perast, both ruled by Venice from the 1400s to the late 1700s. Kotor features a UNESCO-protected fortified wall that snakes for four kilometres over its mountain backdrop. Perast is famous for its baroque palaces and churches.

The outer bay has been prized as naval base since the Roman empire. In the Middle Ages, it was a Venetian military outpost. In the late 1800s, the Bay of Kotor became one of the three bases of the Austro-Hungarian navy. After the end of the First World War in 1918, it became part of Yugoslavia. Josip Broz Tito, the country's leader after the Second World War, employed it as the port of the Yugoslav Navy. Later, after passing through the hands of Serbia and then Montenegro, the ships and submarines became idle. The long, skinny Arsenal base, which covers 24 hectares near the town of Tivat, was rotting away, though it still employed 480 workers when Mr. Munk first saw it.

Where the locals saw decay, Mr. Munk saw a seaside ribbon of yachts, luxury hotels, condos, restaurants, casinos and a golf course – the "next Monaco," as Mr. Corlette puts it. Mr. Munk convinced the Montenegrin government that turning the Bay of Kotor into an elite tourist destination was the proper strategy – the small country didn't have the infrastructure for mass tourism. Somewhere between 3,000 and 5,000 jobs would be created.

Mr. Munk flew in George Nicholson, the chairman of George Nicholson International, the best-known yacht management and brokerage company, to see the Arsenal site early last year. Mr. Nicholson declared it ideal for superyachts. "George measured the docks," says Mr. Munk. "We went to Kotor and Budva and he said it was like St. Tropez in the 1940s."

The Montenegrin prime minister, Mr. Djukanovic was courted by Mr. Munk and became a friend – "I love the man," the Canadian executive says (the prime minister and his wife were lunch guests on the Te Manu on the day I interviewed Mr. Munk). A tender was called and Mr. Munk's holding company, Adriatic Marinas, won three consecutive 30-year property leases – effectively ownership – for a relatively small amount of money. In exchange, Adriatic Marinas made commitments to buy out the Arsenal naval workers, pay for the environmental cleanup and the like. Mr. Munk says he is investing €50-million to €75-million of his own money into the project.

### **All-star investors**

He owns about 54 per cent of Adriatic Marinas. The rest is held by an all-star team of investors. They include Mr. Deripaska; Anthony Munk; Nathaniel Rothschild, the Atticus Capital partner and

the man in line to become the fifth Baron Rothschild; Lord Jacob Rothschild, Nathaniel's father; Bernard Arnault, the French billionaire who is chairman of the luxury goods group LVMH; and Sandor Demjan, the chairman of TriGranit, one of the largest property developers in Central and Eastern Europe.

Mr. Munk owns about 18 per cent of TriGranit, where Nathaniel Rothschild is also an investor; the Hungarian company will handle construction at Porto Montenegro. The World Bank and the European Bank for Reconstruction and Development (EBRD) are sinking small fortunes into local water, sewage, roads and electricity systems.

News of the Porto Montenegro project and the mysterious (to the Montenegrins) clan of wealthy investors triggered fear and loathing in the country. "The resistance was huge," Mr. Munk says. "A lot of the [foreigners] they had been exposed to were rip-off artists."

About 3,500 Montenegrins took to the streets in Tivat to protest the loss of the Arsenal jobs. "The people were very emotional," says Dragan Kankaras, 48, the bearded Tivat mayor. "The Arsenal existed for 120 years and it was the biggest employer in the region. People were afraid of change."

Some Montenegrins suspected the prime minister didn't strike the best deal for the citizens – the government has no direct investment or board governance role in Porto Montenegro, though all the zoning and planning had to be approved by the government. While some admire Mr. Djukanovic as the father of the newly independent Montenegro, others think he is not to be trusted. Last summer Italian prosecutors accused him of conspiring with the Mafia to smuggle cigarettes into the European Union between 1994 and 2002. He denies the charges. He also sued a local newspaper whose editor claims he was beaten up on Mr. Djukanovic's orders.

The good news for Mr. Munk and his backers is that the Porto Montenegro protests are melting away as the lure of new jobs captures the Montenegrins' imagination and the Munk goodwill machine, which includes scholarships, English lessons and university support, rolls forward. "There are only a few who have hard feelings about the project now," says Mr. Kankaras, the Tivat mayor.

The Arsenal naval yard, where Porto Montenegro is to be built, is in a sorry state. The remnants of the once proud Yugoslav and Serbian navies await their appointment with the cutting torch. Submarine No. 831, a black, Sava Class machine commissioned in 1978, lies rusting at the dock, bow down as it slowly takes on sea water. Its sister ship is in dry dock, its six torpedo tubes pointed inland. Mr. Munk's small marketing team plans to turn the hulk into a museum with a Cold War flavour. Another big sub and a midget sub are being cut up in the yard by bored, sweaty workers in the Montenegrin summer's blast-furnace heat. Two millennia of naval history have come to an inglorious end.

But the vast concrete docks are largely intact. So is a massive crane that will act as a sort of marina beacon. Even though construction has yet to start, it's just possible to get a sense of the future Porto Montenegro. The flat area behind the main docks, right on the water, will be the home of a 150-room Four Seasons hotel and about 250 condo units.

The large swath of property away from the harbour is to become a new city. It will have a conference centre and hotel, a market square where the subs are now being dismantled, an art gallery, a museum, a sports complex and 10,000 square metres of retail space, including a supermarket and a department store. A few kilometres away, near Tivat's airport (which is already jammed with private jets), an 18-hole golf course is to be built. The marina will be in operation in 2010, the Four Seasons a year later.

## **Local concern**

The locals look at the project with a mixture of wonder and fear. Sandra Bijelic, an employee in a Tivat real estate office that is doing booming business with Russian clients, says “It will be good for us to have employment for our people, but Tivat and Kotor must have their soul.”

Vesna Macic, 36, a scuba-diving biologist at the University of Montenegro's Institute of Marine Biology, worries that the environmental controls won't be strict enough to prevent oil and chemicals from infiltrating the Bay of Kotor. “If big yachts come here, they have to take on fuel,” she says. “The problem is that they could pollute very easily. And do we have to have a golf course? We don't have enough drinking water in this country. Golf courses take a huge amount of water. So do yachts.”

Mr. Munk and his team are true believers. They say nothing was worse than the dilapidated Arsenal site, with its seabed covered in pollutants from rusted, leaky ships. All of it will be cleaned up, they insist. The yachties will pump vast loads of money into the economy. Jobs will be created. Plus he's having fun. “I don't play bridge and I'm a lousy skier,” he says. “But I have some ability to create and we are creating something wonderful here.”